

DPL INSURANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2013

DPL INSURANCE LIMITED

INDEX TO THE ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2013

	Page
Directors' Report	1
Audit Report	2-3
Statement of Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Financial Position	6
Statement of Cash Flows	7-8
Notes to the Financial Statements	9-35

DPL INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2013

The directors present the annual report of DPL Insurance Limited for the year ended 31 March 2013.

There are certain matters that the shareholders can determine need not be disclosed in the annual report. The shareholders have unanimously agreed, under section 211(3) of the Companies Act 1993, to take advantage of that concession. The shareholders have agreed to limit the annual report to the following:

- Completed and signed financial statements
- Audit Report

Signed for and on behalf of the Board of Directors:



Director



Director

Date: 29 July 2013

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DPL INSURANCE LIMITED

Report on the Financial Statements

We have audited the financial statements of DPL Insurance Limited ('the Company') on pages 4 to 35, which comprise the Statement of Financial Position of the Company as at 31 March 2013, the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Opinion

In our opinion, the financial statements on pages 4 to 35:

- comply with generally accepted accounting practice in New Zealand; and
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Company as at 31 March 2013 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2013:

- i. we have obtained all the information and explanations that we have required; and
- ii. in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.



**STAPLES RODWAY AUCKLAND
CHARTERED ACCOUNTANTS
AUCKLAND**

29 July 2013

DPL INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2013

	Note	2013 \$'000	2012 \$'000
Insurance business			
Revenues			
Premium revenues		1,857	724
Reinsurance revenues		21	21
Expenses			
Claims		347	91
Annuities paid		132	125
Net insurance income		1,399	529
Non insurance business			
Investment revenue			
Investment revenues	6	2,349	1,131
Interest income		1,445	2,127
Investment expenditure			
Investment management expenses	6	92	76
Interest expense		320	693
Net non-insurance income		3,382	2,489
Movement in life insurance and life investment contract liabilities			
Life investment contract liabilities	23	(116)	(265)
Net increase in life investment contract liabilities	23	(1,925)	(591)
Movement in life insurance and life investment contract liabilities		(2,041)	(856)
Other expenditure	6	1,013	1,035
Profit before taxation		1,727	1,127
Less: taxation expense	7	-	-
Profit for the year		1,727	1,127
Other comprehensive income		-	-
Total comprehensive income for the year		1,727	1,127

The accompanying notes form part of these financial statements

DPL INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2013

	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 April 2011	2,500	7,249	9,749
Proceeds of share issue	950	-	950
Dividend paid	-	-	-
Transactions with shareholders in their capacity as owners	950	-	950
Total Comprehensive Income attributable to shareholders	-	1,127	1,127
Balance at 31 March 2012	3,450	8,376	11,826
Dividend paid	-	(7,800)	(7,800)
Transactions with shareholders in their capacity as owners	-	(7,800)	(7,800)
Total Comprehensive Income attributable to shareholders	-	1,727	1,727
Balance at 31 March 2013	3,450	2,303	5,753

The accompanying notes form part of these financial statements

DPL INSURANCE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	Note	2013 \$'000	2012 \$'000
ASSETS			
Cash and cash equivalents	11	3,355	1,142
Receivables	12	725	45
Financial assets at fair value through profit or loss	13	16,652	19,166
Reverse annuity mortgages	14	6,492	21,281
Total assets		27,225	41,634
LIABILITIES			
Payables	15	418	853
Borrowings	16	-	7,248
Current tax liabilities		3	2
Life investment contract liabilities	23	16,370	18,352
Insurance contract liabilities	23	4,681	3,353
Total liabilities		21,472	29,808
SHAREHOLDER'S EQUITY			
Share Capital	8	3,450	3,450
Retained Earnings		2,303	8,376
Total shareholder's equity		5,753	11,826
Total shareholder's equity and liabilities		27,225	41,634

Signed for and on behalf of the Board of Directors:



Director



Director

Dated: 29 July 2013

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 MARCH 2013**

	Note	2013 \$'000	2012 \$'000
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Contributions and Premiums Received		7,991	7,537
Interest Received		182	24
Realised Investment Income		(5)	48
Other		21	21
		<hr/>	<hr/>
		8,189	7,630
<i>Cash was applied to:</i>			
Withdrawals and Claims Paid		8,051	5,928
Administration Fees Paid		1,355	1,692
Other Expenses Paid		9,578	1,506
		<hr/>	<hr/>
		18,984	9,126
Net cash outflow from operating activities	21	(10,795)	(1,496)
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Investments		4,855	1,258
Reverse annuity mortgages		16,182	4,717
		<hr/>	<hr/>
		21,037	5,975
Net cash inflow from investing activities		21,037	5,975

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED

STATEMENT OF CASH FLOWS *(continued)*

FOR THE YEAR ENDED 31 MARCH 2013

	Note	2013 \$'000	2012 \$'000
Cash flows from financing activities			
<i>Cash was applied to</i>			
Repayment of Kiwibank loan		7,559	2,642
Intercompany Borrowings		470	1,909
Net cash outflow from financing activities		(8,029)	(4,551)
Net movement in cash and cash equivalents		2,213	(72)
Add Opening cash and cash equivalents		1,142	1,214
Closing cash and cash equivalents		3,355	1,142
Represented by:			
Bank balances	11	3,355	1,142
Closing cash and cash equivalents		3,355	1,142

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

1. REPORTING ENTITY

DPL Insurance Limited (the "Company") is a domiciled in New Zealand and registered under the Companies Act 1993. The Company is an issuer for the purpose of the Financial Reporting Act 1993 and an issuer in terms of the Securities Act 1978. The Company is a wholly owned subsidiary of Dorchester Pacific Limited, its ultimate parent company. The registered address of the Company is Level 8, 34 Shortland Street, Auckland.

The financial statements for the Company as at and for the year ended 31 March 2013 are presented.

The Company's primary activity is offering insurance products.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statement have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

The financial statements were authorised for issue by the Board of Directors on 29 July 2013.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies.

2.3 Functional and Presentation Currency and Rounding

These financial statements are presented in New Zealand Dollars (\$) which is the Company's functional currency. The financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

2.4 Use of Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign Currency Transactions

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction. All foreign currency monetary assets and liabilities are translated at the exchange rates ruling as at balance date.

3.2 Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and that the revenue can be reliably measured. The principal sources of revenue are premium income and investment income.

Premium Income and Acquisition Costs

Premium income on long-term insurance contracts is recognised on an accrual basis. Premium income on temporary life insurance contracts and short-term motor vehicle contracts is recognised in the period in which the premium is earned during the term of the contract.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

The proportion of premiums not earned in the profit or loss at the reporting date is recognised in the balance sheet as unearned premium liability.

Under life investment contracts deposits are received from policyholders which are then invested on behalf of the policyholders. No premium income is recognised as revenue. Fees deducted from members' accounts are accounted for as fee income.

Commissions and other acquisition costs that vary with and are related to securing new and renewing existing insurance contracts are effectively deferred and amortised over the life of the policy, where product profitability can support the recovery of acquisition costs. These costs are reported as negative components under insurance contract liabilities.

Commissions and other acquisition costs that varies with and is directly related to securing new life investment contracts is capitalised as a deferred acquisition cost asset. All other acquisition costs are recognised as expenses in profit or loss when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and recognised in profit or loss.

Investment Income

Financial instruments are classified in the manner described in (d). Some are measured by reference to amortised cost, other by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in profit or loss. For financial instruments measured at fair value, interest income or expense is recognised on an accrual basis.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the relevant period. The calculation includes all fees paid or received and directly related transaction costs that are an integral part of the effective interest rate. The interest income or expense is allocated over the life of the instrument and is measured for inclusion in profit or loss by applying the effective interest rate to the instruments amortised cost.

Dividend income and unit trust distributions are recorded in the profit or loss when the Company's right to receive the dividend and distribution is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through profit or loss are included in investment income.

Other Revenue

Commission and fee revenue is recognised in profit or loss on the basis of the actual service provided as a proportion of the total services to be provided.

Claims Expense

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

Insurance contract claims are recognised when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in the life investment contract liabilities.

Maintenance Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining the company's operations such that they are sufficient to service enforce policies. These include general growth and development costs. Maintenance costs include all operating and management costs other than acquisition and investment management costs. Maintenance costs are recognised in profit or loss on an accrual basis.

Investment Management Expenses

Investment management costs are the fixed and variable costs of managing investment funds. Investment management expenses are recognised in profit or loss as incurred.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

Other Expenses

All other expenses are recognised in profit or loss on an accrual basis.

3.3 Financial Instruments

Basis on recognition and measurement

The Company classifies financial instruments into one of the following categories at initial recognition: Financial Assets or Liabilities at Fair Value through Profit or Loss, Available for Sale Financial Assets, Loans and Receivables, Financial Assets Held to Maturity, and Financial Liabilities measured at amortised cost.

The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows expire or if the Company transfers them without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract are extinguished.

Financial instruments are initially recognised on the trade date on which the Company becomes a party to the contractual provisions of the instrument, except for loans and advances and debt securities issued which are recognised on the date on which they originate. A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are subsequently carried at fair value with realised and unrealised gains and losses arising from changes in their fair value included in profit and loss in the period they arise. Available for sale financial assets are subsequently measured at fair value and changes fair value recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Loans and receivables and held to maturity financial assets are carried at amortised cost using the effective interest method.

(i) Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated hedges.

The Company's financial assets at fair value through profit or loss comprise: fixed interest securities and investments in unitised funds.

(ii) Available for sale financial assets

Available for sale financial assets are non derivatives which are either designated in this category or not classified in any of the other categories. The Company has no assets in the category.

(iii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable.

The Company's assets in this category are: reverse annuity mortgages, cash and cash equivalents and other receivables.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

(iv) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. The Company has no assets in this category.

(v) Financial liabilities at fair value through profit and loss

This category has two sub categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial liability is classified in the category if held principally for the purpose of realising in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Company's liabilities in this category are life investment contract liabilities.

(vi) Other financial liabilities

This category includes all financial liabilities other than those designated as fair value through profit or loss.

The Company's other financial liabilities include borrowings and other payables.

3.4 Taxation

Life insurers are subject to a special tax regime. Two tax bases are maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 28%. As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

From 1 July 2010 the taxation basis has changed. Tax will be payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). For the first five years of the new tax regime there are concessions which allow certain policies to continue being taxed under the old regime as explained above.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the amount of assets and liabilities, using tax rates enacted or substantively enacted as at balance date.

Deferred taxation assets arising from temporary differences or income tax losses, are recognised only to the extent that it is probable that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax asset will be realised. Any reduction is recognised in profit or loss.

3.5 Provision for Impairment

Impairment is assessed initially for financial assets that are known to be individually impaired.

Reverse mortgages are reviewed at each balance date to determine whether there is any objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date. The loss event has to have had an impact on the reliable measurement of estimated future cash flows.

If any such indication exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

The impairment provision is deducted from reverse mortgages in the statement of financial position and the movement in the impairment provisions is recognised in profit or loss. Bad debts are written off against the provision in the year in which they are identified. If in a subsequent period the amount of an impairment loss decreases and the decrease is linked objectively to an event occurring after the impairment loss, the loss is reversed through profit or loss.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

3.6 Insurance Contracts

Insurance contracts are those contracts that transfer significant insurance risk and are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. The Group issues the following insurance contracts:

- Long-term insurance contracts with fixed and guaranteed terms, these contracts insure events associated with human life (for example, death) over a long duration;
- Temporary life insurance contracts covering death disablement, disability and redundancy risks; and
- Short term motor vehicle contracts covering comprehensive, third party and mechanical breakdown risks.

The liability for insurance contracts has been determined in accordance with Appendix C of NZ IFRS 4 Insurance Contracts and Professional Standard No 3 of the New Zealand Society of Actuaries. In terms of these standards, the liability is determined using the methodology referred to as Margin on Service (MoS). Under MoS the excess premium received over claims and expenses, 'the profit margin', is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder 'the service'.

3.7 Life Investment Contracts

Life investment contracts are those contracts with minimal insurance risk and are accounted for in accordance with NZ IAS 18 Revenue and NS IAS 39 Financial instruments: Recognition and Measurement (refer note 3.3). The life investment contracts are unit-linked and the fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributable of the contract holder.

3.8 Statement of Cash Flows

The cash flow statement has been prepared using the direct approach modified by netting certain cash flows in order to provide more meaningful disclosure as many of the cash flows are on behalf of the Company's customers rather than those of the Company. These include reverse mortgages and financial assets at fair value through profit or loss.

3.9 Change in presentation from the prior period and consistency of presentation

The presentation of some comparative information in the financial statements has been changed, in order to comply with the current year's financial statement presentation. This was done to better reflect the nature of these transactions from the perspective of the business. Except as detailed in above, these financial statements demonstrate consistent presentation and classification for each annual reporting period.

3.10 Contingent Liabilities

The Company is involved in transactions that give rise to contingent liabilities. The Company discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

4. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions that affect the amounts reported in the financial statements. Estimates and judgments are continually evaluated; they are based on historical experience and current observable data. The estimates and judgments made by the Company in the process of applying the accounting policies that have the most significant effect relate to the following:

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

4.1 Liabilities arising from claims made under insurance contracts

Liabilities arising from claims made under insurance contracts are estimated based on the terms of cover provided under an insurance contract.

The estimation of the ultimate liability arising from claims made under insurance contracts is based on a number of actuarial techniques that analyse experience, trends and other relevant factors. The actuarial methodologies used are noted below.

Actuarial Policies and Methods

The actuarial report on life insurance contract liabilities and prudential reserves for the current reporting period was prepared as at 31 March 2013 by Peter Davies, a Fellow of the New Zealand Society of Actuaries. The value of life insurance contract liabilities has been determined in accordance with Professional Standard No. 3 of the New Zealand Society of Actuaries. In terms of the standards, the liability is determined using the methodology referred to as Margin on Service (MoS). After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined.

MoS profit comprises the following components:

(i) Planned margins of revenues over expenses

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy.

(ii) The difference between actual and assumed experience

Experience profits/(losses) are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits/(losses) include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

(iii) Changes to underlying assumptions

Assumptions used for measuring life insurance contract liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for changes in discount rates which are recognised in the year that the rates are changed.

The financial effect of all other changes to the assumptions underlying the measurement of life insurance contract liabilities made during the reporting period is recognised in profit or loss over the future reporting periods during which services are provided to policyholders.

(iv) Loss recognition on groups of related products

If based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in profit or loss immediately. When loss making business becomes profitable previously recognised losses are reversed.

(v) Investment earnings on assets in excess of policy liabilities

Profits are generated from investment assets which are in excess of those required to meet policyholder liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Participating Policies

Policyholder liabilities attributable to participating policies include the value of future planned shareholder profit margins and an allowance for future supportable bonuses. The value of supportable bonuses and planned shareholder profit margins account for all profit on a policy based on best estimate assumptions. Under MoS methodology, the value of supportable bonuses and the shareholder profit margin relating to a reporting year will emerge as expected profit in that year.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

The key assumptions used in determining policy liabilities are as follows:

(i) *Discount Rates*

Discount rates used to determine the life insurance contract liabilities are based on an appropriate risk-free rate of return, taking account of the term of the insurance contracts.

Tax was deducted at the rate of 28% on investment earnings net of investment expenses (2012: 28%). The net discount rates assumed were as follows:

	2013	2012
Whole of Life and Endowment Policies	2.53%	2.92%
Term Insurance Policies	Not applicable	
Funeral Benefit Policies	Not applicable	
Annuity Policies	2.53%	2.92%
Consumer Credit and Key Person Loan Protection	Not applicable	

(ii) *Inflation Rates*

In determining the future expected rate of return, general inflation was assumed to continue into the future at 2.0% per annum (2012: 2.0%).

(iii) *Mortality Rates*

Rates of mortality were assumed as follows:

For underwritten whole of life, endowment and term insurance policies: NZ97 (2012: NZ97). For guaranteed issue funeral plans: NZ97 multiplied by a factor to reflect higher mortality at younger ages. For annuities and reverse mortgages the Directors assumed mortality according to the PA(90) table, reduced by four years (but assuming no age reduction for the Cook Islands Annuity Pension Plan) (2012: PA(90) table, reduced by four years, no age reduction for Cook Islands).

(iv) *Profit Carriers*

The policies were divided into major product groups with profit carriers as follows:

<i>Major Product Groups</i>	<i>Carrier</i>
Participating Whole of Life and Endowment Policies	Policyholder Bonuses
Non Participating Whole of Life and Endowment Policies	Premiums
Funeral Benefit Policies (Caring Plan)	Not Applicable
Term Insurance Policies	Premiums
Funeral Plan Policies (Regular premium guaranteed issue)	Claims
Annuities	Annuity Payments
Consumer Credit and Key Person Loan Protection	Premiums
Motor business	Not applicable
Accidental death and redundancy - Stop gap	Not applicable
Accidental death regular and single premium	Not applicable

(v) *Investment and Maintenance Expenses*

	Cost per policy per annum	
	2013	2012
	\$	\$
Endowments	151	140
Funeral plans	38	50
Term life plans (for loss recognition)	76	50
Consumer credit plans (for loss recognition)	38	30
Annuity plans	151	70

Investment management expenses were assumed to be 1.0% (2012: 1.0%) of policy liabilities.

(vi) *Inflation and Automatic Indexation of Benefits*

Maintenance expenses are assumed to increase 2.0% per annum (2012: 2.0%). Investment management expenses are assumed to remain a constant percentage of funds under management.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

(vii) Taxation

The assumed future tax rate reflects the corporate tax rate applying in New Zealand with effect from 1 April 2013. The calculations have been carried out on the basis of current life insurance income tax legislation.

(viii) Rates of Discontinuance

Rates of discontinuance are assumed to be 5.0% for whole of life, endowment and term insurance business (2012: 5.0%), and nil for annuity pension plan business (2012: \$nil).

(ix) Surrender Values

The Company's current basis of calculating surrender values is assumed to continue in the future.

(x) Rates of Future Supportable Participating Benefits

Rates of bonus supported by the participating fund are simple annual bonuses of \$20 (2012: \$20) per \$1,000 of sum assured on endowment policies. These equal the rates of bonus declared in the previous year.

(xi) Impact of changes in assumptions

The impact of the change in the discount rate from 4.05% to 3.51% (2012: 5.63% to 4.05%) is a increase in policy liabilities of \$132,613 (2012: increase of \$285,849).

The impact of the revised expense assumptions is an increase in policy liabilities of \$27,817.

(xii) Crediting Policy Adopted for Future Supportable Participating Benefits

For participating business the Company's policy is to distribute profits arising such that over long periods the returns to policy holders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. In applying the policyholders' share of distributions to provide bonuses, consideration is given to achieving equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.

4.2 Provision for impairment on financial assets

Provision for impairment on financial assets is determined in accordance with accounting policy 3.5. In applying the policy the Group makes judgments as to whether there is any observable data indicating impairment and the estimation of the recoverable amount.

4.3 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined using discounted cash flow models. To the extent practical, models use observable data, however normal volatilities require management to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

4.4 Deferred tax asset

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Directors believe the Company will have future taxable profits based on its forecasted earnings projections. However as at reporting date, a conservative approach has been taken to not recognise any deferred tax assets for the Company.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

5. New Standards and Interpretations Not Yet Adopted

The following new financial reporting standards and amendments to standards relevant to the Group are not yet effective for the year ended 31 March 2013, and have not been applied in preparing these financial statements.

NZ IFRS 9 Financial Instruments

NZ IFRS 9 is part of the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces amended requirements for classifying and measuring financial assets and liabilities. Effective date: 1 January 2015. The Company has assessed the adoption of this standard and it will not have a material impact on the Company.

NZ IFRS 10 Consolidated Financial Statements

NZ IAS 27 Separate Financial Statements

NZ IAS 28 Investments in Associates and Joint Ventures

NZ IFRS 10 replaces NZ IAS 27 Consolidated and Separate Financial Statements and NZ SIC-12

Consolidation - Special Purpose entities. It has been issued concurrently with:

- NZ IFRS 11 Joint Arrangements;
- NZ IFRS 12 Disclosure of Interests in Other Entities;
- NZ IAS 27 (revised 2011) - this included amendments from the issue of NZ IFRS, but retains current guidance for separate financial statements; and
- NZ IAS 28 (revised 2011) - this has been amended for conforming changes based on the issue of NZ IFRS 10 and NZ IFRS 11.

The objective of NZ IFRS 10 is to establish control as a single basis for consolidation for all entities, regardless of the nature of the investee. The definition of control includes three elements - power over an investee, exposure or rights to variable returns of the investee, and the ability to use power over the investee to affect the investor's returns. Effective date: 1 January 2013. The Company has assessed the adoption of this standard and it will not have a material impact on the Company.

NZ IFRS 11 Joint Arrangements

NZ IFRS 11 supersedes NZ IAS 31 Interests in Joint Ventures and NZ SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. NZ IFRS 11 classifies joint arrangements as either joint operations of joint ventures. The determination of whether a joint venture is joint operation or a joint venture is based on the parties' rights and obligations under the arrangements. Effective date: 1 January 2013. The Company has assessed the adoption of this standard and it will not have a material impact on the Company.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

6. PROFIT AFTER MOVEMENT IN LIFE INSURANCE CONTRACT LIABILITIES, LIFE INVESTMENT CONTRACT LIABILITIES, TAXATION AND COMPREHENSIVE INCOME

a) *Included in profit after movement in life insurance contract liabilities, life investment contract liabilities and taxation are the following:*

	2013	2012
	\$'000	\$'000
Revenue		
Interest received	24	24
Expenses		
Audit Fees		
- Fees for audit of the financial statements	36	70
Provision for impairment	46	28
b) <i>Net profit after taxation from insurance activities arose from:</i>		
Life insurance contracts		
Planned margin of revenues over expenses	7	4
Change in discount rate: 4.05% to 3.51% p.a. (2012: 5.63% to 4.05%)	(132)	(286)
Difference between actual and assumed experience	(947)	753
Life investment contracts		
Difference between actual and assumed experience	970	(537)
Investment earnings on assets in excess of insurance contract and investment contract liabilities	1,829	1,193
Net profit after taxation attributable to insurance activities	<u>1,727</u>	<u>1,127</u>

The disclosure of the components of operating profit after tax expense are required to be separated between policyholders' and shareholders' interests. We have included only one column, as any policyholder profits are an expense of the Company and not attributable to the Shareholder.

It is not currently possible to identify all experience variances separately for life investment contracts. The difference between actual and assumed experience for life insurance contracts therefore includes some variances relating to life investment contracts.

c) Investment Income		
Equity securities – Australasian & international	1,202	214
Fixed interest securities – New Zealand	298	405
Property securities – New Zealand and international	849	512
	<u>2,349</u>	<u>1,131</u>

Included within equity securities is dividend income of \$Nil (2012: \$Nil) and included within fixed interest securities is interest income of \$Nil (2012: \$Nil) and rebate income of \$3,840 (2012: \$Nil). Included within total investment income is net realised and unrealised gains on securities at fair value through profit or loss of \$2,349,358 (2012: \$1,131,263).

d) Administration fees		
Insurance contracts		
Policy acquisition expenses – commission costs	579	7
Deferred acquisition costs amortisation	(428)	-
Total insurance contract related expenses	<u>151</u>	<u>7</u>
Life investment contracts		
Investment management expenses	92	76
Total investment contract related expenses	<u>92</u>	<u>76</u>
Total insurance expenses	<u>243</u>	<u>83</u>

Acquisition costs are those fees charged against the schemes and policies during the first year of operation. Maintenance costs are all other fees charged against the schemes and policies.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

7. TAXATION

a) Taxation expense/(benefit)	2013	2012
	\$'000	\$'000
Net profit/(loss) after movement in life insurance contract liabilities, life investment contract liabilities and before taxation	1,727	1,127
Income tax using the Company's domestic tax rate 28% (2012: 28%)	484	316
Add/(less) expenses not deductible for tax purposes	(142)	(520)
Add/(less) movement in temporary differences not recognised	(427)	(13)
Tax asset not recorded	85	217
	<u>-</u>	<u>-</u>
 b) Imputation credit memorandum account		
Opening balance	-	10
Income tax payments/(refunds received)	2	139
Imputation credits received	-	164
Imputation credits utilised	-	(313)
Imputation credits lost due to change in share holding	-	-
Closing balance	<u>2</u>	<u>-</u>

Dorchester Pacific Limited formed a consolidated imputation group with its subsidiaries from the imputation year ended 31 March 2007, the table above reflects the figures for the Dorchester Pacific Limited consolidated group.

Policyholder

The balance of the policyholder imputation credit account is \$Nil (2012: \$Nil).

c) Taxation Losses

Company

Taxation losses brought forward	1,844	3,145
Add/(less) taxation losses incurred	305	737
Add/(less) taxation losses utilised	(202)	(2,038)
Taxation losses carried forward	<u>1,947</u>	<u>1,844</u>

The Company has unrecognised tax losses of \$1,947,059 (2012: \$1,844,378) available to be carried forward and to be offset against taxable income in the future. The tax effect of these losses at 28% (2012: 28%) is \$545,176 (2012: \$527,626). The ability to carry forward these losses is contingent upon continuing to meet the requirement of the Income Tax Act 2007.

Policyholders

The policy holder tax losses carried forward at 31 March 2013 are \$3,208,042 (2012: \$2,213,727).

The policyholder taxation losses are only available to be offset against future policyholder income.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

8. SHARE CAPITAL

	2013 000	2012 000
Number of ordinary shares		
Opening balance	3,450	2,500
Shares issued during the year	-	950
Total authorised and issued share capital	<u>3,450</u>	<u>3,450</u>
Dollar value of ordinary shares	\$'000	\$'000
Opening balance	3,450	2,500
Shares issued during the year	-	950
Total authorised and issued share capital	<u>3,450</u>	<u>3,450</u>

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

The dividends declared and paid in 2013 were \$7,800,000 (2012: \$Nil). No dividend has been declared subsequent to 31 March 2013.

9. EQUITY – DPL INSURANCE LIMITED SOVENCY CALCULATION

In terms of the Insurance (Prudential Supervision) Act 2010, DPL Insurance Limited must comply with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand in August 2011. DPL Insurance Limited is required to hold minimum solvency capital of \$5.0 million and have a solvency margin of at least \$1.

Actual solvency capital	5,753	11,809
Calculated minimum solvency capital	3,952	11,433
Coverage ratio on calculated margin (times)	1.53	1.03
Overall minimum capital requirement	5,000	11,433
Solvency margin on overall minimum requirement	753	376
Coverage ratio on overall minimum requirement (times)	1.15	1.03
<i>Non-life insurance</i>		
Actual solvency capital	601	-
Calculated minimum solvency capital	162	-
Solvency margin on calculated minimum requirement	439	-
<i>Life insurance</i>		
Actual solvency capital	5,152	11,809
Calculated minimum solvency capital	3,790	11,433
Solvency margin on calculated minimum requirement	1,362	376

10. CAPITAL MANAGEMENT

The Company's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return on the capital allocated. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation. The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. During the financial year ended 2012 the Solvency Standard for Life Insurance Business was issued by the Reserve Bank of New Zealand, refer note 5.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

11. CASH AND CASH EQUIVALENTS

	2013	2012
	\$'000	\$'000
Bank	3,355	1,142

12. RECEIVABLES

Other receivables and prepayments	725	45
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13. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS

Investment in unitised funds	15,591	18,644
Fixed interest securities – government stock	1,062	522
	<u>16,652</u>	<u>19,166</u>

Investments in unitised funds comprise:

Cash/deposits	3,128	3,699
Fixed interest securities-New Zealand and overseas	2,005	2,925
New Zealand and international equities	6,271	7,468
New Zealand and overseas property securities	4,187	4,552
	<u>15,591</u>	<u>18,644</u>

Investments with external investment managers

Onepath	15,591	18,644
	<u>15,591</u>	<u>18,644</u>

Investments in unlisted units represent the investments of the life investment contracts (Refer note 23).

14. REVERSE ANNUITY MORTGAGES

Securing bank borrowing (refer note 16)	-	7,802
Other	6,585	13,611
	<u>6,585</u>	<u>21,413</u>
Deferred fee revenue and commission expenses	(90)	(83)
Provision for impairment	(3)	(49)
	<u>6,492</u>	<u>21,281</u>

15. PAYABLES

Related party payable (Note 20)	177	648
Other payables and accruals	241	205
	<u>418</u>	<u>853</u>

16. BORROWINGS

Bank borrowings - Kiwibank	-	7,248
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17. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has no material commitments or contingent liabilities at 31 March 2013.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

18. FINANCIAL INSTRUMENTS

a.) Credit risk

Credit risk is the risk that a counterparty will cause a financial loss for the Company by failing to meet its contractual obligations.

Financial instruments which potentially subject the Company to credit risk principally consist of cash and cash equivalents, reverse mortgages, other receivables and financial assets at fair value through profit or loss. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments which represent irrevocable unused portions of authorisations to extend loans. The Company's cash equivalents and short term deposits are placed with high credit quality institutions.

The Company performs credit evaluations on all customers requiring advances. The Company requires collateral or other security to support the financial instruments with credit risk. The Company operates a lending policy with various levels of authority depending on the size of the loan. A lending and credit committee operates and overdue loans are assessed on a regular basis by this body.

Risk gradings categorise exposures according to the degree of risk of financial loss faced and focus management on the attendant risks. Risk grades are used to determine where impairment allowances may be required. The current risk grading framework consists of three grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. They are as follows:

- neither past due nor impaired - compliance with all terms, good security value, and no adverse events affecting the borrower.
- past due but not impaired – non- compliance with all terms and concerns over future events that may effect the borrower.
- past due and impaired - non-compliance with terms, evidence of impairment of security held and adverse event affecting the borrower.

The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for reverse mortgages are mortgages over residential property.

Maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position which is net of any provision for impairment.

With respect to credit risk on commitments, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The credit risk exposure below does not take into account the fair value of any collateral, in the event of counterparties failing to meet their contractual obligation.

For life investment linked contracts the investments credit risk is appropriate for each particular product and the risk is borne by the policy holder. There is no significant risk assumed by the Company.

a.) i.) Concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are involved in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Company manages, limits and controls concentrations of credit risk, in particular, to individual counterparties and geographic location. The Company lends only to owners of property.

Such risks are monitored on an ongoing basis and subject to an annual or more frequent review, when considered necessary.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

Geographic concentrations of reverse mortgages

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by the geographic regions of our counterparties.

	2013	2012
	\$'000	\$'000
Northland	919	4,271
Auckland	3,237	8,878
Waikato/Bay of Plenty	1,015	2,039
Taupo	-	401
Wellington	374	1,173
Rest of North Island	381	1,668
Canterbury	370	1,827
Otago/Southland	175	507
Rest of South Island	114	649
	6,585	21,413

a.) ii.) Reverse mortgages specifically impaired

Reverse mortgages specifically impaired	-	-
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Reverse mortgages are an equity release product from the borrowers' residence. Mortgage advances and interest accruals increase the mortgage carrying amount therefore there are no past due mortgages. When the mortgage advances and interest accruals exceed secured property valuations the reverse mortgage is specifically impaired.

An estimate of the fair value of collateral held against impaired reverse mortgages at 31 March 2013 was nil (2012: \$nil).

b.) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds at short notice to meet obligations from its financial liabilities.

The Company maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Management actively manages the lending and borrowing portfolios to ensure the net exposure to liquidity risk is minimised. The exposure is reviewed on an ongoing basis from daily procedures to monthly reporting as part of the Company's liquidity management process. The management process includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met;
- managing the concentration and profile of debt maturities;

Monitoring and reporting take the form of cashflow measurement and projections, these include:

- day to day funding requirements;
- on a weekly basis, projecting the requirements for each of the next 4 weeks;
- on a monthly basis, projecting the requirements for each of the next 12 months;

The weekly projections are reported to the Board. The Company also monitors the level of undrawn lending commitments.

The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (see tables below).

The tables below present cash flows payable by the Company for financial liabilities and unrecognised loan commitments based on the earliest possible contractual maturity. The Company expects cashflows on these instruments to vary from their contractual maturity. For instance unrecognised loan commitments are not all expected to be drawn down immediately.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

The liquidity risk for cash flows payable on the life investment contracts liabilities that are unit linked contracts is managed by holding a pool of readily tradable investment assets (included in financial assets at fair value through profit or loss) and deposits on call. These have been excluded from the maturity analysis below because there is no contractual or expected maturity date for the life investment contracts and the readily tradable investment assets offset any liquidity risk.

Interest terms of other borrowings funding Reverse mortgages (RAM's) are linked to the underlying RAM's. Interest accrues and increases the carrying amount of other borrowings. There is no contractual maturity for RAM products. On repayment of the RAM, other borrowings are repaid. The other borrowings funding RAM products is a commitment that is extended on an annual basis.

2013 \$'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	3,355	-	-	-	-	3,355
Reverse mortgages	242	-	-	1,279	4,971	6,492
Other receivables	725	-	-	-	-	725
	4,322	-	-	1,279	4,971	10,572
Financial liabilities						
Borrowings	-	-	-	-	-	-
Advances from related parties	177	-	-	-	-	177
	177	-	-	-	-	177

Off-Statement of Financial Position items

Interest receivable not yet accrued	-	-	23	359	11,051	11,433
Interest payable not yet accrued	-	-	-	-	-	-

2012 \$'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	1,142	-	-	-	-	1,142
Reverse mortgages	215	486	361	4,961	15,258	21,281
Other receivables	45	-	-	-	-	45
	1,402	486	361	4,961	15,258	22,468
Financial liabilities						
Borrowings	7,248	-	-	-	-	7,248
Advances from related parties	648	-	-	-	-	648
	7,896	-	-	-	-	7,896

Off-Statement of Financial Position items

Interest receivable not yet accrued	-	48	44	1,766	34,407	36,265
Interest payable not yet accrued	117	-	-	-	-	117

Interest receivable not yet accrued is the unearned interest over the remaining term of the reverse mortgages. Interest payable not yet accrued is the interest payable on the Kiwibank loan over the remaining term of the loan.

c.) Market risk

Market risk is the risk of an event in the financial markets that results in a fluctuation in earnings or a fluctuation in value. Market risk arises from the mismatch between assets and liabilities. The Company is exposed to diverse financial instruments including interest rates, equities, and foreign currencies.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

c.i.) Life insurance business

For the life insurance business, financial assets at fair value through profit or loss are held for investment linked policies where market risk is transferred to the policy holder. The Company earns fees on investment linked policies that are based on the amount of assets invested, it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided by the Policy Holder. This risk is not considered significant.

Interest rate risk also arises on risk contracts where negative policy liabilities are valued at current risk free interest rates. There would not be any significant impact on profit or loss for interest rate changes refer sensitivity analysis note 18.

c.ii.) Interest rate risk for financing activities

For the financing activities of the Company, the main market risk is interest rate risk.

Interest rate risk is the risk of loss to the Company arising from adverse changes in interest rates. The Company is exposed to the interest rate risk in respect of borrowings from and lending to customers. Interest rates are managed by assessing the demand for funds, for new lending, repayments and maintaining an adequate liquidity buffer. Rates are either fixed or variable for both lending and borrowing over the term of the contract. The Company does not enter into any futures, swaps or option contracts. Changes to interest rates can impact on the Company's financial results by affecting the spread earned on the interest-earning assets and the cost of interest-bearing liabilities.

Interest rate risk is measured by management and the Board of Directors when establishing fixed and variable rates of interest. When approving interest rates for individual loan advances interest rate risk is either measured by management and/or Board of Directors in accordance with the approved lending policy. Exposure to interest rates is monitored by the Board of Directors on a monthly basis.

Reserves mortgages are carried at amortised cost. The expected maturity periods of reverse mortgages are set out at note 18.b). Interest rates on advances are fixed or variable throughout the life of the advances. Advances are secured over the assets to which they relate.

The Company repaid its borrowings during and has no longer has any significant exposure to interest rate risk on borrowings.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

The following table summarises the sensitivity of the Company's finance assets and financial liabilities to interest rate risk. The analysis shows the annualised impact on profit before tax and equity of a +/- 1% movement in interest rates. The equity impact takes into account tax effect of the profit impacts.

2013 (\$'000)	Carrying amount	-1% profit	-1% equity	+1% profit	+1% equity
Financial assets					
Reverse mortgages	6,492	(65)	(45)	65	45
2012 (\$'000)					
Financial assets					
Reverse mortgages	21,281	(213)	(149)	213	149
Financial liabilities					
Borrowings	7,248	72	51	(72)	(51)
Total increase/(decrease)		(140)	(98)	140	98

d.) Fair value of financial assets and liabilities not carried at fair value

Except for reverse mortgages and borrowings, the carrying value of all financial assets and liabilities not carried at fair value approximates their fair values as they are either short term in nature or rate insensitive.

The fair value of reverse mortgages and borrowings is determined using discounted cash flows, the discount rates used are the current market rates for similar products.

The table below summarises the carrying amounts and fair values of those financial assets and financial liabilities not presented on the Company's statement of financial position at their fair value:

2013	Carrying Amount	Fair Value
\$'000		
Financial assets		
Cash and cash equivalents	3,355	3,355
Other receivables	725	725
Reverse mortgages	6,492	7,545
	10,572	11,625
Financial liabilities		
Borrowings	-	-
Advances from related parties	177	177
	177	177
2012	Carrying Amount	Fair Value
\$'000		
Financial assets		
Cash and cash equivalents	1,142	1,142
Other receivables	45	45
Reverse mortgages	21,281	21,509
	22,468	22,696
Financial liabilities		
Borrowings	7,248	7,334
Advances from related parties	648	648
	7,896	7,982

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

e.) Fair value financial assets

The fair value of financial assets carried at fair value are determined as follows:

- Level 1: The fair value is calculated using quoted prices in active markets.
- Level 2 : The fair value is estimated using inputs other than quoted prices in level 1 that are observable for the assets, either directly (as prices) or indirectly (derived from prices).
- Level 3: The fair value is estimated using inputs for the assets that are not based on observable market data.

The fair value of financial assets carried at fair value as well as the methods used to calculate fair value are summarised in the table below:

2013	Level 1	Level 2	Level 3	Total
\$'000				
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss	1,062	15,591	-	16,652
	<u>1,062</u>	<u>15,591</u>	<u>-</u>	<u>16,652</u>
2012	Level 1	Level 2	Level 3	Total
\$'000				
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss	522	18,644	-	19,166
	<u>522</u>	<u>18,644</u>	<u>-</u>	<u>19,166</u>

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

19. ASSET QUALITY

	2013	2012
	\$'000	\$'000
Specific impairment provision		
Opening balance	-	53
Provision for impairment	-	-
Amounts written off	(134)	(31)
Amounts recovered during the year	134	(22)
Closing balance	-	-
Collective impairment provision		
Opening balance	49	-
Provision for impairment	(46)	49
	3	49
Specific impaired financial assets		
Opening balance	-	590
Additions to other individually impaired assets	-	-
Deletions from other individually impaired assets	-	(590)
	-	-
Movement in provisions - reconciliation to statement of comprehensive income - specific provisions for:		
Collection impairment provision	3	49
Specific impairment provision	134	(22)
Charge to profit or loss	137	(22)

20. TRANSACTIONS WITH RELATED PARTIES

a) Related party balances

Payable as follows:

Dorchester Life Management Limited	-	(33)
Dorchester Life Trustees Limited	-	-
Dorchester Pacific Limited	177	681
	177	648

All related party loans are repayable on demand and bear no interest. No related party debts have been forgiven or written off during the year.

b) Related Party Transactions

The Company paid expenses in the form of activity \$462,918 (2012: \$562,391), plan \$687,369 (2012: \$649,512) and establishment fees \$204,505 (2012: \$480,612) to Dorchester Life Management Limited in return for Dorchester Life Management Limited administering certain products offered by the Company. Certain overhead recharges were received from Dorchester Life Management Limited of \$577,820 (2012: \$872,299). The Company also charges administration fees of \$23,195 (2012: \$Nil) to Dorchester Capital Limited and \$26,805 (2012: \$Nil) to Dorchester RAMS Limited for administering Reverse Annuity Mortgages products on behalf of these companies.

The Company, Dorchester Capital Limited, Dorchester RAMS Limited, Dorchester Life Management Limited and Dorchester Finance Limited are all wholly owned subsidiaries of Dorchester Pacific Limited. There were no transactions (2012: NIL) which occurred at nil or nominal value.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

21. RECONCILIATION OF NET SURPLUS AFTER TAXATION TO CASHFLOWS FROM OPERATING ACTIVITIES

	2013	2012
	\$'000	\$'000
Net profit after movement in life insurance contract liabilities, life investment contract liabilities and taxation	1,727	1,127
<i>Add/(less) non-cash items:</i>		
Non-cash movement in reverse mortgages	14,828	(2,127)
Net unrealised (gains)/losses on investments	(2,349)	(1,131)
Policyholder liabilities	(708)	(178)
Provision for impairment	(38)	27
<i>Add/(less) movements in working capital items:</i>		
Receivables	(38)	-
Other payables	(25,084)	(717)
<i>Add Working Capital items treated as investing activities</i>	(31)	(62)
<i>Add Working Capital items treated as financing activities</i>	898	1,565
Net cash outflow from operating activities	(10,795)	(1,496)

22. SIGNIFICANT EVENTS AFTER BALANCE DATE

In July 2013 DPL Insurance Limited was assigned a financial strength rating of B+ (Good) and an issuer credit rating of bbb- by rating agency A.M. Best. The outlook assigned to both ratings is stable.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

23. LIFE INSURANCE RELATED DISCLOSURES

a.) Policyholder liabilities	2013 \$'000	2012 \$'000
Life insurance contract liabilities		
Opening life insurance contract liabilities	3,353	3,048
Increase / (decrease) in life insurance contract liabilities recognised in profit or loss	488	479
Increase / (decrease) in premium revenues recognised in profit or loss	972	(138)
Increase / (decrease) in interest income recognised in profit or loss	(132)	(36)
Closing life insurance contract liabilities	<u>4,681</u>	<u>3,353</u>
<i>Policyholder liabilities contain the following components:</i>		
Future policy benefits	9,495	6,187
Future bonuses	39	40
Future expenses	507	408
Future profit margins	557	151
Balance of future premiums	(5,926)	(3,435)
Re-insurance	2	2
Cost of bonus	7	-
	<u>4,681</u>	<u>3,353</u>
Life insurance contracts with a discretionary participation feature – the amount of the liabilities that relates to guarantees	372	433
Other contracts with a fixed or guaranteed termination value – current termination value	2,766	2,341
Life investment contracts at fair value through profit or loss		
Opening life investment contract liabilities at fair value through profit or loss	18,352	18,835
Increase in life investment contract liabilities recognised in profit or loss	1,922	655
Contributions	5,300	6,824
Withdrawals	(7,849)	(6,270)
Activity, plan and establishment fees	(1,355)	(1,692)
Closing life investment contract liabilities held by the life insurance business	<u>16,370</u>	<u>18,352</u>
Expected to be realised in more than 12 months	<u>16,370</u>	<u>18,352</u>

The benefits offered under the Company's unit-linked investment contracts are based on the returns of selected equities and debt securities. This investment mix is unique, and it cannot be associated to an individual benchmark index with a sufficiently high correlation.

All financial liabilities at fair value through profit and loss are designated by the Company to be in this measurement category.

The liabilities originated from unit-linked contracts are measured in reference to their respective underlying assets of these contracts. Changes in the credit risk of the underlying assets do not impact the measurement of the unit-linked liabilities. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

b.) Policyholder liabilities	2013	2012
	\$'000	\$'000
Annuities	1,896	1,976
Endowment	410	473
Whole of life	699	549
Provision for bonuses and future margins	557	152
Consumer credit protection & key person loan protection	950	97
Accidental death/redundancy	89	45
Term of life	30	10
Claims provision	50	50
Superlife policies	7,967	8,877
Life bond policies - life bond reserve	11	11
Superannuation Funds:		
NZPP Payroll Superannuation Fund (Pension)	-	34
NZPP Payroll Superannuation Fund (Lump Sum)	-	54
NZPP Personal Superannuation Fund (Pension)	-	116
NZPP Personal Superannuation Fund (Lump Sum)	-	9
NZPP Portable Superannuation Fund (Pension)	-	483
NZPP Portable Superannuation Fund (Lump Sum)	-	4
NZPP Employees Superannuation Scheme	-	1,527
Unclaimed monies closed funds - NZPP	821	-
Super Bond Retirement Plan	7,349	7,008
Invincible Superannuation Plan	154	157
Dorchester Life Group Superannuation Plan	68	73
	<u>21,051</u>	<u>21,705</u>

The policy liabilities in respect of annuities, endowment, whole of life, term life, super life and life bond have been established in accordance with the policy conditions and maintained at a level equivalent to obligations due to policy holders as maturity or partial benefits.

Dorchester Life Trustees Limited, as trustee of all the superannuation funds, invests in a life policy issued to the trustees by DPL Insurance Limited. During the year the Company received premiums, paid claims and invested the funds for the superannuation schemes outlined above. All investments and bank accounts of these funds are recorded in the name of DPL Insurance Limited.

The super life policy liabilities are equal to the super life retirement fund. The super life fund has been established by DPL Insurance Limited in accordance with the policy conditions and is maintained at a level equal to the obligations due to super life policyholders as maturity or partial benefits.

The life bond policy liabilities are separated into two reserves, the premium reserve fund and the life bond reserve. The premium reserve fund has been established by DPL Insurance Limited in accordance with the policy conditions and is maintained at a level equal to the obligations due to life bond policyholders as maturity or partial benefits as at 31 March 2013.

A life reserve has been created from investment earnings and is attributable to the superannuation funds and Superlife policies.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

c.) Disaggregated information

The business undertaken and policies accepted by DPL Insurance Limited are a combination of investment linked and non-investment linked. Investment linked business is business for which the life insurer issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular investment linked fund. Non-investment linked business is life insurance business other than investment linked business.

	Investment	Non- Investment	
2013 (\$'000)	Linked	Linked	Total
Premium income	-	1,857	1,857
Investment income	2,349	1,445	3,794
Claims expense	-	(347)	(347)
Annuities paid	-	(132)	(132)
Other operating expenses	(264)	(1,256)	(1,520)
Investment revenues allocated to policyholders	(1,920)	(5)	(1,925)
Net profit before taxation	165	1,562	1,727
Taxation	-	-	-
Net profit after taxation	165	1,562	1,727
Policy liabilities	(16,370)	(4,681)	(21,051)
Investment assets	16,414	7,554	23,968
Other assets	651	4,080	4,731
Other liabilities	(291)	(421)	(712)
Retained earnings	2,485	(182)	2,303

	Investment	Non- Investment	
2012 (\$'000)	Linked	Linked	Total
Premium income	-	724	724
Investment income	1,131	2,148	3,279
Claims expense	-	(91)	(91)
Annuities paid	-	(125)	(125)
Other operating expenses	(592)	(1,477)	(2,069)
Investment revenues allocated to policyholders	(591)	-	(591)
Net profit before taxation	(52)	1,179	1,127
Taxation	-	-	-
Net profit after taxation	(52)	1,179	1,127
Policy liabilities	(18,352)	(3,353)	(21,705)
Investment assets	18,644	21,803	40,447
Other assets	1,166	1,187	2,353
Other liabilities	221	(8,103)	(7,882)
Retained earnings	2,320	6,056	8,376

d.) Managed funds and other fiduciary activities

DPL Insurance Limited acted as a promoter for a number of superannuation funds with assets managed by a third party investment manager. The assets and liabilities of these funds are included in the financial statements. Arrangements exist to ensure the activities of the superannuation funds are managed independently from the other activities of the company.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

e.) Insurance risk

The insurance business of the Company involves a number of financial and non-financial risks. The financial risks are covered in note 18. Key objectives in managing insurance risk are:

- (i) To ensure sound business practices are in place for underwriting risks and claims management;
- (ii) To achieve a target return on capital that is invested in order to take on insurance risk; and
- (iii) To ensure solvency and capital requirements are met.

Life insurance

The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, and longevity risks accepted from policyholders. These risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the Company is such that certain external variables can be identified on which related cashflows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cashflows are dependent.

Type of contract	Details of the contract workings	Nature of compensation for claims	Key variables affecting cash flows
Non-participating life insurance contracts with fixed and guaranteed terms	Benefits paid on death or maturity are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, lapses, expenses and market earnings on assets backing the liabilities.
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	Mortality, lapses, expenses and market earnings on assets backing the liabilities.
Life Annuity Contracts	These policies provide guaranteed regular payments to the life assured.	The amount of the payment is set at inception of the policy.	Longevity, expenses and market earnings on assets backing the liabilities.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

Non-life insurance

The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations and to ensure sound business practices are in place for underwriting risks and claims management.

Claims

Variations in claim levels will affect reported profit and equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate. The experience of the Company's life insurance business is reviewed regularly.

Concentration of insurance risk

The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographic locations. The Company uses reinsurance to limit the insurance risk exposure for any one individual.

Sensitivity analysis

The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the impact of actual experience being different to that assumed in the calculation of liabilities. Movements in any variable will impact the profit and net assets of the Company. The tables below describe how a change in actual experience relative to that expected will effect next financial year's expected shareholder profit.

<u>Variable</u>	<u>Impact of movement in underlying variable</u>
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders equity
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity
Discontinuance	The impact of discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market Risk	For benefits which are not contractually linked to the underlying assets, the Company is exposed to Market Risk

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2013

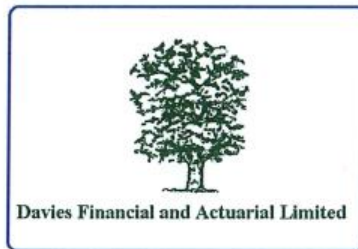
The table below illustrates how changes in key assumptions would impact the reported profit and liabilities of the Company

As at 31 March 2013 – Result of change in assumptions

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
\$'000		
Market risks		
Increase in interest rates of 1%	(473)	(36)
Decrease in interest rates of 1%	543	41
Insurance risks		
Increase in expenses of 10%	1	(112)
Decrease in expenses of 10%	(1)	113
Decrease in mortality by 10%	110	(479)
Increase in mortality by 10%	36	694
Worsening of discontinuance rate by 10%	-	132
Improvement in discontinuance rate by 10%	-	(142)

As at 31 March 2012 – Result of change in assumptions

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
\$'000		
Market risks		
Increase in interest rates of 1%	(341)	(9)
Decrease in interest rates of 1%	391	10
Insurance risks		
Increase in expenses of 10%	1	(78)
Decrease in expenses of 10%	(1)	78
Decrease in mortality by 10%	320	(64)
Increase in mortality by 10%	26	452
Worsening of discontinuance rate by 10%	-	91
Improvement in discontinuance rate by 10%	-	(98)



19th August 2013

To: The Directors
DPL Insurance Limited

From: Peter Davies
Appointed Actuary

**Re: DPL Insurance Limited: Report as at 31st March 2013
under Sections 77 and 78 of the Life Assurance
(Prudential Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for DPL Insurance Limited as at 31st March 2013. "Actuarial information" includes the following:
 - policy liabilities;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company's solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.
2. No limitations have been placed on my work.

3. I am independent with respect to DPL Insurance Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. DPL Insurance Limited exceeded the minimum capital requirement of the RBNZ solvency standard for Life Insurers as at 31st March 2013. This standard specified an overall \$5m minimum capital requirement.

I have prepared a set of projections of the Company's Statutory and Shareholder funds for the next five years, based on current valuation assumptions and on management business plans and projected expense levels. These projections indicate that both funds, and the Company as a whole, are expected to meet the RBNZ solvency requirements at all times over this period.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary